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Arrogative-Conservative Prescription For a New War on Poverty

Federal City Council Annual Meeting
Washington, D. C.

September 17, 1990

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"As we approach the 21st century, let us resolve to make our legacy a successful war against poverty. Let's unleash the greatest wealth our Nation has, the pent-up talents and potential of our people. "

Jack Kemp
September 17, 1990

noninflationary economic growth: sound money, income tax rate cuts across the board, and reductions in the growth of government spending and regulation. As a result, the world was lifted to a higher vision of what democratic capitalism could achieve in creating wealth and opportunity for people. By contrast, at the decade's end, the leader of the socialist world -- the Soviet Empire -- had become an economic basket case. The intellectual and political case for socialism had collapsed.

As we enter a tougher economic climate and experience slower growth, we must not choke off expansion with higher taxes, but instead stimulate the economy by enacting President Bush's proposed capital gains tax cut. This will free up investment capital for entrepreneurship and new job creation, generating billions of dollars of revenues for state and federal treasuries, and adding value to the financial assets of our Nation.

The creation of new businesses, the unleashing of innovative ideas, invigorates economies and markets. Economic growth in the 1980's confirmed that real wealth comes not from physical resources, but from human resources; not from mere things, but from the ideas, talents, and efforts of people. That's why the President and some courageous Republicans like Senators Bob Kasten and Connie Mack, House GOP Whip Newt

disturbing problems signal the ongoing deterioration of many communities, especially minority communities.

In 1984, Governor Mario Cuomo was cheered at the Democratic Convention when he told his tale of America as two cities, one rich and one poor, permanently divided into two classes. With all due respect to his great rhetoric, the Governor got it wrong. America is not divided into two static classes with envy and redistribution the only answer. But our Nation is divided into two economies -- one is democratic capitalist, and based on private property; the other is near socialist, government-directed, and based on public ownership of property.

Our macro and mainstream economy is market-oriented, entrepreneurial, incentivized for working families; it rewards work, investment, saving and human productivity.

The second economy in our inner cities is similar in many ways to Eastern European, or Third World socialist economies. It is predicated on rules, regulations, and incentives that are directly opposite to those governing our mainstream economy.

The second economy almost guarantees poverty and dependency: -- it rewards welfare and unemployment at a higher level than working and productivity; -- it taxes and regulates the entrepreneur who

poverty and much of our welfare system was created to help the poor, to alleviate suffering, and to provide a basic social safety net. But despite the noble intent, it has created dependency, welfare bureaucracy, and near pathological social conditions for some. Our country is now reaping this bitter harvest in terms of homeless women and children, unemployed fathers, and crack-addicted babies -- despair not hope, poverty not opportunity.

Examples abound of how disincentives have created poverty in inner cities. I recently read a **Wall Street Journal** article about a woman on welfare in Milwaukee, Wisconsin who tried to put away a few pennies, nickels, and dimes so that one day she could do what every mother wants to do -- send her daughter to college. She managed to build a savings account of just over \$3,000, but there was a catch: the welfare agency said she was violating welfare rules. She was taken into court, prosecuted for fraud, then fined \$15,000. But since she didn't have \$15,000, they took her \$3,000, gave her a year's sentence in jail, suspended it -- and in the process traumatized her life.

Guess what? She now spends every cent she gets, and relies on government subsidies to pay for just about everything. Incidentally, the story may have a happy ending for this woman. After I mentioned her story in a

hour. She would lose about \$1 a day after taking into account lost government benefits, taxes, and work-related expenses such as transportation and child care.

Eugene Lang, a wealthy New York businessman, also believes in the power of incentives to produce positive behavior. According to **The New York Times**, he told children in PS 121 elementary school in East Harlem that if they stayed in school, got good grades, and stayed drug free, he would personally pay for their college educations. Talk about results! Sixty percent of those children had been dropping out, but today 90 percent are in their first or second year of college.

Public housing is another example of government policies that perpetuate a poverty trap with disincentives to work and disincentives to build strong families. Because public housing authorities charge rents based entirely on a tenant's income, those rents actually can jump by 600 percent or more if the tenant gets married or takes a job. In some cases, rents exceed those charged in the private sector for similar dwellings.

We're instituting a new policy at HUD that sets "ceiling" rents at no higher than the market level. If a tenant takes a job or gets married, the rent increase will be put into an escrow or savings account, which will be

crippled low-income rental housing markets in many cities. Ironically, rent controls often help the wealthy and hurt the poor. The **New York Times** recently editorialized that "Perversely, many poor families are the harshest losers from rent controls ... rent control has benefited the lucky, not the needy."

The real effect of rent control is to subsidize many upper and middle income families. Since rent controls create incentives for these families to stay in regulated apartments, these homes are not available for those with lower incomes. According to the **Times**, "some families in the highest income groups became even richer by buying apartments they rented, reselling them later at 10 and 15 times what they paid." Affordable housing is a real challenge, and the Administration is taking steps to solve it. State and local governments make the task difficult by imposing market-destroying regulations.

Another glaring example of counterproductive government policies is the way in which HUD subsidizes vacant public housing. It costs the taxpayer over \$1,300 per unit to support vacant public housing often used as crack houses for gangs and drug pushers. We've started a policy called Operation Occupancy to subsidize only homes actually occupied by low-income

income people combat poverty and despair. In his recent speech to Congress on the Persian Gulf crisis, President Bush mentioned this agenda -- the only domestic goal he spoke of not directly affected by that situation.

First, President Bush wants to cut the capital gains tax rate, not to help the rich, but to help the poor get rich in terms of opportunity.

As Abraham Lincoln said, "When one starts poor, as most do in the race of life, free society is such that he knows he can better his condition in life. I am not ashamed to confess that twenty-five years ago I was a hired laborer, mauling rails, at work on a flatboat -- just what might happen to any man's son! I want every man to have the chance ... in which he can better his condition -- when he may look forward and hope to be a hired laborer this year and next, work for himself afterward, and finally hire men to work for him. That is the true system."

In the spirit of Lincoln's vision, President Bush has asked Congress to cut the capital gains tax rate to 15 percent for the Nation -- and establish Enterprise Zones -- as a national policy to generate jobs, opportunities, and minority enterprise in our Nation's most distressed communities.

I believe we should set a goal of doubling or tripling the number of minority

Bush tax cuts began to take effect, including our cut in capital gains to 20 percent. What happened?

Between 1977 and 1982, the number of black-owned businesses increased by 33 percent, and new Census Bureau figures show that, between 1982 and 1987, the number of black-owned companies jumped 38 percent -- growing two-and-a-half times faster than all new business formations in the same period.

While the 1986 tax reform lowered income tax rates across the board, Democratic leaders in Congress extracted a high price by demanding a 65 percent increase in the maximum tax rate on capital gains -- one of the largest increases in U.S. history!

Considering inflation, the real capital gains tax rate, according to a study by economist David Goldman, may easily be 75 percent or more. This punitive tax is staggering the entrepreneurial sector. Columnist Warren Brookes estimates that investment, which was growing at more than 7 percent annually before the tax hike, has slowed by 50 percent, and new business formation is actually declining for the first time in 10 years.

No one is hurt more by this than the poor and minorities who need access to the seed corn that a capital gains tax cut would

lower tax rate for risk income than for ordinary income.

Second on the President's agenda is resident management and urban homesteading in public housing to empower tenants to take control of their communities and achieve their dreams of homeownership. Under President Bush's leadership, we've recently set a goal of creating more than 1 million new homeowners by 1992 through FHA and our HOPE initiative, Homeownership and Opportunity for People Everywhere, which has passed the House and Senate and goes to conference this week.

Post columnist William Raspberry wrote recently "...when assets are present, people begin to think in terms of the asset. If a young mother owns her own home, she begins to pay attention to real estate values, property taxes, the cost of maintenance and so forth ... it is the assets themselves that create this effect, as opposed to just educational programs or exhortations toward better values."

Raspberry is right. Not only is homeownership and tenant empowerment a practical thing to do, it's a moral imperative.

Third, in order to create greater choice and independence, rental vouchers should be significantly increased and expanded. Low-income families should have greater

income tax credit and pass the President's Child Care tax credit to roll back the huge burden on low-income families and unemployed parents. These can be paid for, in part, by the additional revenues gained from cutting the capital gains tax rate to 15 percent. The capital gains tax cut would expand tax revenues at all levels of government by spurring new economic growth.

Sixth, for homeless people, the Administration's new Shelter Plus Care plan will expand community-based mental health facilities, drug abuse treatment, job training, and day care. Shelter and support services are the key to helping homeless Americans re-enter the mainstream economy. If Congress passes HUD's budget request for 1991, including the Shelter Plus Care initiative, it will represent a 62 percent increase in homeless assistance over 1990 and nearly a 170 percent increase from 1989.

Seventh, to enhance education and opportunity, we must expand true choice and competition through magnet schools, education vouchers, tuition tax credits, and other policies which increase alternatives in education. Merit -- plus champions like State Representative Polly Williams in Wisconsin and Council Member Keith Butler in Detroit -- has rescued this idea from the partisan attacks of the past. Empowering parents with

and opportunity against the politics of envy. I believe that our greatest assets are not in the wealth we see around us but in the potential that is unseen -- minds yet to be educated, businesses yet to be opened, technologies yet to be discovered, jobs waiting to be created. Wealth is not what we've done, but what we have yet to do -- and we've got a lot to do.

I've travelled to hundreds of distressed communities and I know entrepreneurial capitalism and empowerment can work to create the wealth and opportunities of the future. As we approach the 21st century, let us resolve to make our legacy a successful war against poverty. Let's unleash the greatest wealth our Nation has, the pent-up talents and potential of our people.